

Organic Valley Produce Program

Location: La Farge, Wisconsin

Business structure: Producer cooperative

Product offerings: While Organic Valley's brand is identified with dairy products, it sells many other products including number one, or "fancy grade," produce.

Services: Production support, training, marketing, merchandising and distribution.

Suppliers: 150 growers and small-scale grower cooperatives located primarily in five states (WI, IN, MO, MN and IA). Most growers are Amish and farm between one and thirty acres in southwestern Wisconsin.

Customers: Approximately 40 buyers nationally, with 15 located in the Midwest. Most are natural foods distributors or distribution centers for grocery retailers.

Volume: While Organic Valley's total gross sales are \$527 million annually, it budgeted \$3 million for produce sales in 2009.

Years in operation: 21

Grower requirements: Growers must be certified organic. Organic Valley does not require GAP certification but it provides GAP training for its growers and is developing a farm sanitation audit process. It carries product liability insurance for its members.

of employees: While Organic Valley employs over 500 people, the produce program has five full-time, year-round employees and two full-time, seasonal warehouse leads.

Pricing: Farmers are paid a base price for their produce and receive an annual bonus based on profits earned by the cooperative. The produce program operates on a 20 percent commission on product sold.

Website: www.organicvalley.coop/products/produce



Organic Valley is a producer-owned cooperative that sells organic dairy products, meat, eggs, soy and fresh produce in season. It sources produce primarily from Amish growers in southwestern Wisconsin, and supplies grocery retailers and distribution centers in the Midwest, East and South. The cooperative works closely with its members to increase volume, and improve quality and post-harvest handling. Organic Valley would like to help its growers scale up their production and add new grower pools across the United States to meet the flourishing national demand for regionally grown, organic produce.

Organic Valley was founded in 1988 as a produce growers' cooperative. Shortly thereafter, it launched its organic dairy program. This dairy program quickly became its primary and most profitable focus. However, the cooperative continues to sell other products under the Organic Valley label including produce, juice, eggs and soy. Its sister company—Organic Prairie—markets beef, pork, chicken and turkey. The cooperative's freight logistics arm—Organic Logistics—coordinates its regional and national hauling.

In order to ensure all members have a voice in the cooperative, Organic Valley farmers belong to pools based on region and product produced. Each farmer pool meets monthly and has an

elected executive committee, made up of farmers, that helps direct policy and major decisions for the co-op. To join the cooperative, farmers must make an equity investment of 5.5% of their total annual sales or a minimum of \$250. Additional equity investments are made as a farmer's production share increases. Organic Valley employees are hired and supervised by a management team that answers to the co-op's board of directors. The board is made up of and elected by farmers. Growers are paid a base price bi-weekly according to the product and volume they deliver. At the end of the season, they are paid a "pooling bonus"—the difference between the revenues and base price of each crop after accounting for freight and commission.

Organic Valley's produce program encompasses production, warehousing and sales. A produce pool coordinator works directly with growers to coordinate pre-season planning. The coordinator visits each farm to review quality standards and packing requirements, and answer production questions. The program hosts workshops for its growers on topics such as on-farm sanitation, post-harvest handling and pest management. By providing its growers with product liability insurance and supporting them as they move toward GAP certification, Organic Valley helps growers meet wholesale produce industry requirements that would be difficult and expensive to meet individually.

Growers wash, grade and pack produce on-farm and either deliver it to the Organic Valley distribution facility or have it picked up for a small fee. Once product is aggregated, Organic Logistics orchestrates distribution at a low cost by shipping the produce along with dairy products. The produce is sold under the Organic Valley label. Individual farms are not identified, but state of origin is coded on each case. The co-op is pursuing Global Trade Item Number (GTIN) bar codes on all of its case shippers. Organic Valley equips buyers with point-of-sale merchandising materials.

Historically subsidized by the cooperative's dairy revenues, the produce program's 2009 sales may prove financially self-sustaining for the first time. Organic Valley sees significant room for produce sales growth in all of its production pool regions, and sees a need to engage more growers to make market expansion possible. In addition, the cooperative is exploring a value-added product line that might include tray-packed, lightly processed and pureed products.

Challenges

Insufficient understanding of production costs. Small and mid-scale growers often have difficulty tracking their labor and input costs, especially when growing a variety of specialty crops. As a result, many growers are unable to report such information to Organic Valley so that it can advocate for sustainable price returns and cut production of unprofitable crops. In response, Organic Valley has hosted cost-of-production workshops and is creating a workbook for growers that will include production tracking forms and accounting formulas.

Difficulty preserving the integrity of the cold chain.

Because it works largely with Amish growers who have limited cold storage and transportation options, Organic Valley must either pick up perishable product shortly after it is harvested or select crops that require less stringent cooling. Organic Valley provides grower education and technology to improve post-harvest handling. The co-op plans to centralize grading and packing in a new facility with forced air and hydrocooling (see below).



On-farm packing limits use of #2 produce and pack size options. On-farm grading and packing reduces pack size and grading options. The cooperative aims to finance a centralized produce packing facility that would enable it to efficiently grade and sort #1 and #2 product, and expand sales and value-added processing for #2 product.

Balancing small grower profitability with efficient production and distribution. According to Produce Program Manager Annake Witkop, "Wholesale product makes sense at a certain economy of scale. We are not doing our growers any favors by accepting two cases of zucchini a week—with a little effort, they could get a better price for this quantity at a farmers' market."

Lessons

To succeed in the wholesale market, small growers must reach economies of scale and comply with production, post-harvest handling and pack size standards. Small growers' advantage in the marketplace is their ability to produce unique varieties and provide their stories alongside their products. To help its members capitalize on this advantage while scaling up, Organic Valley is developing an on-farm sanitation standard and auditing process based on GAP requirements.

Building on established enterprises can reduce operating costs and enhance brand recognition. The Organic Valley produce program is subsidized by the cooperative's dairy program and has access to the marketing, infrastructure and sales force of a much larger operation. The ability to ship produce nationally with other Organic Valley products has resulted in exceptionally low distribution costs. Conversely, the value of additional brand exposure combined with the opportunity to fill out less than full dairy trucks have been Organic Valley's primary reasons for maintaining this historically unprofitable program.